

**DELAWARE WATERSHED JOINT DISTRICT NO. 10
HOLTON, KANSAS**

FINANCIAL STATEMENTS

WITH

INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED

DECEMBER 31, 2014

Joseph M. Bambick
CERTIFIED PUBLIC ACCOUNTANT

DELAWARE WATERSHED JOINT DISTRICT NO. 10
Holton, Kansas

December 31, 2014

TABLE OF CONTENTS

	<u>Page Number</u>
Independent Auditors' Report	1 - 2
<u>Statement 1</u> Summary of Cash Receipts, Expenditures, and Unencumbered Cash	3
Notes to the Financial Schedules	4 - 8
<u>Schedule 1</u> Summary of Expenditures – Budget and Actual (Budgeted Funds Only)	9
<u>Schedule 2</u> Schedule of Cash Receipts and Expenditures – Actual and Budget	10
<u>Schedule 3</u> Schedule of Cash Receipts and Cash Disbursements – Agency Funds	11

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INDEPENDENT AUDITOR'S REPORT

President and Board
Delaware Watershed Joint District No. 10
Holton, Kansas

I have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of Delaware Watershed Joint District No. 10, as of and for the year ended December 31, 2014 and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the *Kansas Municipal Audit and Accounting Guide* as described in Note A to meet the financial reporting requirements of the State of Kansas. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statement based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit and Accounting Guide*. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse opinion on U.S. Generally Accepted Accounting Principles

As described in Note A of the financial statements, the financial statement is prepared by Delaware Watershed Joint District No. 10 to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variance between the regulatory basis of accounting described in Note A and accounting principles generally accented in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In my opinion, because of the significance of the matter discussed in the "Basic for Adverse Opinion on U.S. Generally Accepted Principles" paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Delaware Watershed Joint District No. 10 as of December 31, 2014, or changes in financial position and cash flows thereof and the year then ended.

Opinion on Regulatory Basis of Accounting

In my opinion, the financial statements referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of Delaware Watershed Joint District No. 10, as of December 31, 2014, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide described in Note A.

Report on Supplementary Information

My audit was conducted for the purpose of forming an opinion on the fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The summary of regulatory basis expenditures-actual and budget, individual fund schedules of regulatory basis receipts and expenditures- agency funds (Schedules 1, 2, and 3 as listed in the table of contents) are presented for analysis and are not a required part of the basic financial statement, however are required to be presented under the provisions of the Kansas Municipal Audit and Accounting Guide. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the basic financial statement as a whole, on the basis of accounting described in Note A.

Joseph M. Bambick, CPA

Fredonia, Kansas
June 29, 2015

DELAWARE WATERSHED JOINT DISTRICT NO. 10
Holton, Kansas

Summary of Cash Receipts, Expenditures, and Unencumbered Cash
For the Year Ended December 31, 2014

	General Fund
Unencumbered Cash Balance, December 31, 2013	\$ 399,424.38
Cash Receipts	240,204.27
Expenditures	<u>134,205.97</u>
Unencumbered Cash Balance, December 31, 2014	505,422.68
Add: Outstanding Encumbrances and Accounts Payable	<u>5,847.94</u>
Cash Balance December 31, 2014	<u><u>\$ 511,270.62</u></u>
Composition of Cash	
Holton National Bank	
Checking Account	\$ 76,745.11
Deposits	-
Less: Outstanding Checks	9,974.98
Savings Account	299,008.63
Escrow Account	5,434.20
Certificate of Deposit	140,000.00
Cash on Hand	<u>57.66</u>
Total Cash	511,270.62
Less: Agency funds per Schedule 4	<u>-</u>
Total Composition of Cash for Reporting Entity	<u><u>\$ 511,270.62</u></u>

The accompanying notes are an integral part of these financial statements.

DELAWARE WATERSHED JOINT DISTRICT NO. 10
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Financial Reporting Entity

Delaware Watershed Joint District No. 10 (Watershed), which was organized in 1956, is governed by an eleven member, elected, board. The Watershed employs a manager for the administration of the Watershed's business.

2. Basis of Presentation

In governmental accounting, a fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The Watershed has the following fund types and account groups:

GOVERNMENTAL FUND TYPES:

General Fund – The General Fund is the general operating fund of the Watershed. All financial resources, except those required to be accounted for in another fund, are accounted for in the General Fund.

FIDUCIARY FUND TYPES:

Agency Funds – Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

3. Basis of Accounting

Statutory Basis of Accounting. The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments related to unperformed (executor) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund from which the transfer is made.

The Watershed has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the Watershed to use the statutory basis of accounting.

See Independent Auditor's Report

DELAWARE WATERSHED JOINT DISTRICT NO. 10
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3. Basis of Accounting (continued)

Departure from Accounting Principle Generally Accepted in the United States of America. The basis of accounting described above results in a financial statement presentation which shows cash receipts, cash disbursements, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expense, liabilities such as unearned revenue and matured principal and interest payable, and reservations of the fund balances are not presented. Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with generally accepted accounting principles. Net position that account for the land, buildings, and equipment owned by the Watershed are not presented in the financial statements. Also, long-term debt such as general obligation bonds, revenue bonds, capital leases, temporary notes, and compensated absences are not presented in the financial statements.

4. Budgetary Information

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), debt service funds, and enterprise funds. The statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

- a. Preparation of the budget for the succeeding calendar year on or before August 1st.
- b. Publication in local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5th.
- c. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
- d. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held and the governing body may amend the budget at that time. There were no such budget amendments for this year.

See Independent Auditor's Report

DELAWARE WATERSHED JOINT DISTRICT NO. 10
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4. Budgetary Information (continued)

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the cash basis of accounting, modified further by the encumbrance method of accounting. Revenues are recognized when cash is received. Expenditures include disbursements and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. All unencumbered appropriations (legal budget expenditure authority) lapses at year end.

A legal operating budget is not required for capital projects funds and trust funds.

Spending in funds, which are not subject to the legal annual operating budget requirements, are controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

5. Reimbursements

Delaware Watershed Joint District No. 10 records reimbursable expenditures (or expenses) in the fund that makes the disbursement and records reimbursements as revenue to the fund. For the purpose of budgetary comparisons, the expenditures (or expenses) are properly offset by the reimbursements.

6. Compensated Absences

The Watershed's policies regarding vacation and sick leave time permit employees to accumulate 1 day of sick/vacation leave each month. Employees may not carry over more than 40 days to the following year. Employees are entitled to all accrued annual leave and sick leave upon termination. Unpaid vacation and sick leave amounts are estimated to be \$2,257 at December 31, 2014.

7. Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

8. Comparative Data/Reclassifications

Comparative total data for the prior year has been presented in selected sections of the accompanying financial statements in order to provide an understanding of the changes in the District's financial position and operations.

See Independent Auditor's Report

**DELAWARE WATERSHED JOINT DISTRICT NO. 10
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE B – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

1. Statutory Compliance:

a. Designation of Depositories (KSA 9-1401):

The Watershed has not designated depositories for public moneys in 2014.

b. Excess of Expenditures Over Appropriations (KSA 79-2934):

Expenditures did not exceed appropriations in the General Fund.

NOTE C – DETAIL NOTES ON ALL FUNDS

1. Deposits and Investments:

K.S.A. 9-1401 establishes the depositories which may be used by the Watershed. The statute required banks eligible to hold the Watershed's funds have a main or branch bank in the county in which the Watershed is located and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The Watershed has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the Watershed's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The Watershed has no investment policy that would further limit its investment choices. The rating of the Watershed's investments is noted above.

Concentration of credit risk. State statutes place no limit on the amount the Watershed may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405. The Watershed had no investments as of December 31, 2014.

Custodial credit risk – deposits. Custodial credit risk is the risk that in the event of a bank failure, the Watershed's deposits may not be returned to it. State statutes require the Watershed's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the federal Home Loan Bank of Topeka, except during designated "peak periods" for the year. All deposits were legally secured at December 31, 2014.

At December 31, 2014, the Watershed's carrying amount for deposits was \$511,271 and the bank balance was \$521,246. Of the bank balance \$250,000 was covered by Federal Deposit Insurance and the balance of \$271,246 was secured by securities pledged by the institution in which they were on deposit.

See Independent Auditor's Report

DELAWARE WATERSHED JOINT DISTRICT NO. 10
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE C – DETAIL NOTES ON ALL FUNDS (continued)

1. Deposits and Investments: (continued)

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the Watershed will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes required investments to be adequately secured.

NOTE D – OTHER NOTES

1. Defined Contribution Pension Plan:

The Delaware Watershed participates in the Kansas Public Employees Deferred Compensation Plan. Employees become eligible for participation in the plan upon hire. The Delaware Watershed contributes 3 percent of gross wages to the plan and employees may contribute up to a maximum amount calculated under section 457 of the Internal Revenue Service Code. For the year ended December 31, 2013, contributions by the Watershed totaled \$580, and contributions by the plan participant totaled \$900. One Watershed employee participates in the plan. Participants vest at service inception and are entitled to 100 percent of vested contributions.

2. Risk Management:

The Watershed is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Watershed purchases commercial insurance for all risks of loss. Settled claims have not exceeded commercial coverage in 2014.

The Watershed self-insures for losses equal to the amount of the insurance deductible. The deductible for any one incident is not material.

NOTE E – SUBSEQUENT EVENTS

The Watershed evaluated events and transactions occurring subsequent year end through June 29, 2015, and there were no subsequent events requiring recognition in the financial statements. Additionally, there were no non-recognized subsequent events requiring disclosure.

See Independent Auditor's Report

DELAWARE WATERSHED JOINT DISTRICT NO. 10
Holton, Kansas

Summary of Expenditures - Actual and Budget
(Budgeted Funds Only)
For the Year Ended December 31, 2014

<u>Funds</u>	<u>Total Certified Budget</u>	<u>Qualifying Budget Credits</u>	<u>Expenditures Charged to Current Year Budget</u>	<u>Variance - Over (Under)</u>
General Fund	\$ 437,000.00	\$ -	\$ 134,205.97	\$(302,794.03)

DELAWARE WATERSHED JOINT DISTRICT NO. 10
Holton, KansasStatement of Cash Receipts and Cash Disbursements - Agency Funds
December 31, 2014

<u>Funds</u>	<u>Beginning Cash Balance</u>	<u>Cash Receipts</u>	<u>Cash Disbursements</u>	<u>Ending Cash Balance</u>
Landowner Deposits Funds	\$ -	\$ -	\$ -	\$ -

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